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INTELLIGENCE BRIEF

DIRECTOR OF INTELLIGENCE AND RESEARCH

May 27, 1970

To : The Acting Secretary

Through: S/S

From : INR - George C. Denney, Jr. A.C.D.

QUADHAAFI PLAN

Subject: Libya: Will the Government Move Against the Oil Companies?

Oil is Libya's Major Diplomatic Weapon. Concern over the ultimate intentions of the present Libyan Government toward the mainly American and British-owned oil industry in Libya appears well justified: the ruling junta is clearly no friend of the international "majors" and is almost certainly considering a number of alternative solutions to Libya's present heavy dependence on those companies (as evidenced by Libya's recent contacts with the Soviets and other Eastern Europeans, the French, and the Algerians). However, in connection with the current negotiations over the "posted" or tax-reference price of crude oil, it seems unlikely that the Libyans would move against foreign equity interests in the industry as a whole--by total or partial nationalization, by sequestration, or by general revocation of concessions.

Libyan Prime Minister Mu'ammarr QADHAAFI probably views western (US, UK and to a lesser extent FRG) equity interests in Libyan oil as the most important remaining hostage to the anti-Israel cause, and he probably would not squander his highest trump card, unless and until he were to reach the conclusions (a) that cooperation of any sort with the pro-Israel Western states is counterproductive to the cause and (b) that he could nationalize

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the oil interests of these states without military or subversive moves against his regime.

There is little evidence that he has reached either conclusion. On the first point, Libya is continuing to seek some limited military cooperation with the US as well as the UK and FRG. Furthermore, Qadhaafi has just launched an inter-Arab diplomatic initiative for his own, as yet undisclosed, plan for the settlement of the Arab-Israeli confrontation. Given the great influence on Qadhaafi of UAR President NASSER, this "Qadhaafi plan" (although almost certainly calling for strong Arab pressures against the US) probably also reflects Nasser's waning hopes for a political settlement based on US influence over Israel. Unless and until Nasser called on Libya to take all-out action against US interests, Qadhaafi is not likely to act rashly against the US oil interests in Libya. On the latter point, Qadhaafi would in any case move extremely cautiously until after the complete evacuation of American forces from Wheelus Air Base, now scheduled for mid-June. On balance, and assuming that the Arab cause does not deteriorate dramatically during this period, Qadhaafi probably will not nationalize the industry as a whole over the next few weeks.

Some Companies Are More Vulnerable Than Others. On the other hand, the Libyans will almost certainly continue to harass, threaten, and restrict individual companies in different ways (such as the recent production limitations imposed on Occidental). There is probably at least an even chance that the Libyans will move soon against the equity interests of one or more American oil companies (most likely, by the revocation of

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individual concession agreements), partly to settle old scores and partly to pressure the rest of the industry into moving toward an acceptable solution to the posted price issue. Many Libyans--particularly chief oil negotiator and former Prime Minister Mahmud MAGHRABI--are convinced that a number of companies (notably Occidental) engaged in flagrant corruption not only in obtaining their original concessions, but also in their other operational problems with the royalist government. Some of the companies were associated very closely in one way or another with now discredited officials of the former regime, some of whom have been actively plotting against the present regime. There are many skeletons in the closet, and, depending on which facts are known to and considered important by the Libyans, a number of companies are undoubtedly vulnerable to individual action. Furthermore, some companies may also be subject to Libyan action for failure (by the present government's stricter standards) to comply with their legal obligations under their concession agreements and related regulations. Thus, action against any one company over these next few weeks need not, and probably will not, indicate Libyan intentions to move against the industry as a whole.

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